

Message Text

CONFIDENTIAL

PAGE 01 BONN 17049 01 OF 03 302007Z

70

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-03 H-01 L-01 NSC-05 NSCE-00

OES-02 PM-03 SAM-01 SP-02 PRS-01 NEA-06 CIAE-00

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R 301757Z OCT 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5982

INFO AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 01 OF 03 BONN 17049

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, ETRD, GW, IR, EEC

SUBJECT: GERMAN-IRANIAN REFINERY PROJECT

REF: STATE 230852, BONN 16493, EC BRUSSELS 7836,
STATE 218673

1. SUMMARY: THE FRG APPEARS RESOLUTE IN ITS
DETERMINATION TO SEEK DUTY-FREE STATUS FOR PETROLEUM
PRODUCTS FROM IRAN. ALTHOUGH IT HAS TRADE POLICY
OBJECTIONS TO A PREFERENTIAL TRADE AGREEMENT BETWEEN
THE EC AND IRAN, ALL INDICATIONS ARE THAT IT IS
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PAGE 02 BONN 17049 01 OF 03 302007Z

PREPARED TO OVERRIDE THESE OBJECTIONS AND PRESS HARD

FOR SUCH AN AGREEMENT IF NECESSARY TO ENSURE THE SUCCESS OF THE PROPOSED GERMAN-IRANIAN REFINERY PROJECT. ECONOMICS MINISTER FRIDERICH HAS A STRONG PERSONAL COMMITMENT TO THE SUCCESS OF THIS PROJECT. THE EMBASSY WILL CONTINUE ITS REPRESENTATIONS ON BOTH PETROLEUM DUTY REDUCTIONS AND EC-IRAN PREFERENTIAL TRADING AGREEMENT. TO THE EXTENT THAT A GERMAN RESPONSE TO OUR CONCERNS IMPLIES AN ABANDONMENT OF THE REFINERY PROJECT HOWEVER, OUR REPRESENTATIONS ARE LIKELY TO RECEIVE A COLD RECEPTION. END SUMMARY.

2. DURING THE PAST SEVERAL DAYS, THE EMBASSY HAS MADE SEVERAL REPRESENTATIONS TO FOREIGN AND ECONOMIC MINISTRY OFFICIALS EXPRESSING OUR OBJECTIONS TO BOTH THE FRG PROPOSAL FOR PREFERENTIAL TREATMENT OF OIL PRODUCTS FROM IRAN AND TO A PREFERENTIAL EC-IRAN TRADE AGREEMENT. IN RESPONSE THESE OFFICIALS HAVE UNDERLINED THE NEED FOR THE FRG TO DEVELOP A SECURE AND DIVERSIFIED SOURCE OF ENERGY SUPPLIES AND THE IMPORTANCE OF FRG-IRANIAN RELATIONS. WHILE THEY ASSURE US THAT THEY ARE TAKING US CONCERNS INTO ACCOUNT, THEY OFFER NO ASSURANCE THAT THE FRG IS PREPARED TO ABANDON THE REFINERY PROJECT AND THEY INSIST THAT DUTY REDUCTIONS ARE AN ESSENTIAL ELEMENT IN THE SUCCESS OF THE PROJECT.

3. OUR TRADE POLICY SOURCES TELL US THAT THEY HAVE BEEN GIVEN EXPLICIT ORDERS TO DEVISE A FORMULATION WHICH WILL ENABLE THE FRG TO GRANT DUTY FREE STATUS TO THE REFINERY'S OUTPUT. DESPITE THEIR EFFORTS OUR SOURCES SAY THAT THEY HAVE NOT YET BEEN ABLE TO COME UP WITH SUCH A FORMULATION. ONE ALTERNATIVE IS TO INCLUDE THE PRODUCTS UNDER THE COMMUNITY'S GENERALIZED PREFERENTIAL ARRANGEMENT. THIS ALTERNATIVE IS UNACCEPTABLE TO THE IRANIANS, HOWEVER, PRIMARILY SINCE THIS ARRANGEMENT DOES NOT OFFER IRONCLAD LONG-TERM GUARANTEES OF DUTY FREE TREATMENT. IN ORDER TO MEET THIS OBJECTION THE FRG IS CONSIDERING THE POSSIBILITY OF TYING DOWN THESE PREFERENTIAL CONCESSIONS IN SOME FASHION DURING FORTHCOMING TRADE CONFIDENTIAL

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PAGE 03 BONN 17049 01 OF 03 302007Z

NEGOTIATIONS. ANOTHER OBJECTION IS THAT THE PREFERENCE CONCESSIONS ARE GRANTED ON AN MFN BASIS AND NEITHER THE FRG NOR ITS COMMUNITY PARTNERS ARE ANXIOUS TO MAKE SUCH A BROAD CONCESSION FOR ALL OIL PRODUCING COUNTRIES.

4. ANOTHER POSSIBILITY BEING CONSIDERED IS FOR THE COMMUNITY TO GRANT DUTY FREE STATUS TO ALL PRODUCTS

PRODUCED IN CONJUNCTION WITH-LONG TERM "COOPERATION AGREEMENTS". SUCH AGREEMENTS COULD BE GOVERNMENT-TO-GOVERNMENT, PRIVATE FIRM TO GOVERNMENT, OR PRIVATE FIRM TO PRIVATE FIRM. THIS APPROACH ALSO RAISES SERIOUS PROBLEMS. SOME OPPONENTS ARGUE THAT IT IS INCONSISTENT WITH MFN PROVISIONS OF THE GATT. PROPONENTS OF THIS APPROACH ARGUE ON THE OTHER HAND THAT IT IS CONSISTENT WITH THE GATT SINCE ALL COUNTRIES OR FIRMS OF ALL COUNTRIES ARE ELIGIBLE TO MAKE SUCH LONG TERM AGREEMENTS WITH AN EEC COUNTRY

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PAGE 01 BONN 17049 02 OF 03 302010Z

70

ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EB-03 H-01 L-01 NSC-05 NSCE-00

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R 301757Z OCT 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5983

INFO AMEMBASSY BRUSSELS

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C O N F I D E N T I A L SECTION 02 OF 03 BONN 17049

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OR FIRM. THE FRENCH OBJECT TO SUCH A SWEEPING

APPROACH SINCE THEY DO NOT WANT THE US-BASED CORPORATIONS TO BE ABLE TO TAKE ADVANTAGE OF ITS PROVISION. IN ADDITION THE FRG AS WELL AS OTHER EEC MEMBERS REALIZE THAT THIS APPROACH WOULD OPEN THE DOOR FOR A FLOOD OF REQUESTS FOR AGREEMENTS FROM OTHER OIL PRODUCING COUNTRIES, SOVIET UNION, AND OTHER MAJOR TRADING PARTNERS AND WOULD LEAD TO A BREAKDOWN OF THE EC COMMON EXTERNAL TARIFF.

5. THE FRG HAS EVEN CONSIDERED CERTAIN TECHNICAL SOLUTIONS SUCH AS ONLY REFINING THE OIL 98 PERCENT OF THE WAY OR ADDING SOMETHING TO IT IN ORDER TO CONFIDENTIAL

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PAGE 02 BONN 17049 02 OF 03 302010Z

CHANGE ITS TARIFF CLASSIFICATION BUT TO NO AVAIL. THE FRG WILL PURSUE ITS PROPOSAL FOR A DUTY REDUCTION AT AN EEC WORKING-LEVEL MEETING ON OCTOBER 30.

6. SUPPORTERS OF THE REFINERY HAVE SEIZED ON THE IDEA OF AN EC/IRANIAN PREFERENTIAL AGREEMENT AS THE IDEAL VEHICLE FOR ELIMINATING TARIFFS ON THESE PETROLEUM PRODUCTS. THEY ARE JOINED IN THIS APPROACH BY OTHER FORCES WHO SUPPORT SUCH AN AGREEMENT. FOR BOTH TRADE POLICY AND FOREIGN POLICY REASONS THE FRG IS ANXIOUS THAT THE COMMUNITY NEGOTIATE SOME FORM OF TRADE POLICY AGREEMENT WITH IRAN. THE 1963 AGREEMENT HAS EXPIRED AND IRAN HAS BEEN PRESSING HARD FOR A NEW AGREEMENT, AND BECAUSE OF IRAN'S IMPORTANCE AS AN OIL PRODUCER THE FRG IS ANXIOUS TO RESPOND TO THE IRANIAN DEMAND. THE COMMUNITY HAS ALREADY NEGOTIATED AGREEMENTS UNDER ITS PREFERENCE SCHEME WITH BRAZIL, SRI LANKA AND OTHERS AND THE FRG FEELS THIS PROCESS SHOULD CONTINUE. THE DANISH PROPOSAL FOR AN EC/IRANIAN FREE TRADE AREA PLAYS INTO THE HANDS OF THE SUPPORTERS OF THIS REFINERY PROJECT.

7. ACCORDING TO OUR SOURCES, EC COMMISSIONER GUNDELACH SUPPORTS THE DANISH PROPOSAL. DURING HIS RECENT VISIT TO BONN, HE ARGUED THAT SUCH AN AGREEMENT WAS NOT INCONSISTENT WITH THE GATT AND THAT THE US WOULD EVENTUALLY HAVE TO ACQUIESCE IN SUCH A DECISION JUST AS IT DID IN THE EARLIER CASES OF KENYA AND UGANDA. OUR SOURCES STATE THAT SOAMES AND WELLENSTEIN ARGUED STRONGLY AGAINST IT DURING THE RECENT EC COUNCIL MEETING IN LUXEMBOURG, HOWEVER.

8. ALL INDICATIONS ARE THAT ECONOMICS MINISTER FRIDERICHS IS DETERMINED TO BRING THE REFINERY

PROJECT TO A SUCCESSFUL COMPLETION. AS THE
DEPARTMENT IS AWARE, THIS PROJECT HAS ITS ORIGINS
IN FORMER CHANCELLOR BRANDT'S OFFICIAL VISIT TO
IRAN AND IN ECONOMICS MINISTER FRIDERICH'S FOLLOW-UP
VISIT. THESE VISITS WERE ONE OF THE BRANDT
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PAGE 03 BONN 17049 02 OF 03 302010Z

GOVERNMENT'S EARLY FOREIGN POLICY SUCCESSES AND
HAVE BEEN DESCRIBED TO US AS "LOVE FEASTS". PART OF
THE AGREEMENT THAT WAS REACHED DURING THE FRIDERICH'S
VISIT WAS THAT ONLY THE FIRMS PARTICIPATING IN THE
CONSTRUCTION OF THE PROJECT WOULD HAVE ACCESS TO
THE PRODUCTS PRODUCED BY THE REFINERY AND THESE
PRODUCTS WOULD ENTER GERMANY DUTY FREE. THE LACK OF
CONSIDERATION OF THE TRADE POLICY IMPLICATIONS OF
SUCH AN AGREEMENT HAS BEEN EXPLAINED TO US AS A
REFLECTION OF THE EXTRAORDINARY ATMOSPHERE
SURROUNDING THE BRANDT AND FRIDERICH'S VISITS.

9. EVER SINCE HIS RETURN FROM IRAN, ECONOMICS
MINISTER FRIDERICH'S HAS EVIDENCED AN EXTREMELY FIRM
PERSONAL COMMITMENT TO ITS SUCCESS. THIS COMMITMENT
IS SHARED BY STATE SECRETARY ROHWEDDER, ASSISTANT

SECRETARY ENGELMANN AND ASSISTANT SECRETARY FOR
TRADE POLICY STEEG. ACCORDING TO OUR SOURCES
FRIDERICH'S BRUSHES ASSIDE FOREIGN MINISTRY
OPPOSITION AS REPRESENTING
A DESIRE OF THE FOREIGN OFFICE TO DENY HIM A MAJOR
FOREIGN ECONOMIC POLICY SUCCESS. ONE SOURCE
SPECULATES THAT CHANCELLOR SCHMIDT IS ALSO ANXIOUS
TO SEE THE PROJECT SUCCEED IN ORDER TO DEMONSTRATE
GERMANY'S ECONOMIC MUSCLE TO ITS NEIGHBORS.

10. OTHER GERMAN OFFICIALS REPRESENTING DIFFERENT
POLICY INTERESTS ARE DEVOTING THEIR EFFORTS TO
SEEING THAT THE PROJECT DOES THE MINIMUM DAMAGE
POSSIBLE TO OTHER GERMAN FOREIGN POLICY INTERESTS.

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PAGE 01 BONN 17049 03 OF 03 301819Z

70

ACTION EUR-08

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C O N F I D E N T I A L SECTION 03 OF 03 BONN 17049

LIMDIS

THEIR TASK HAS NOT BEEN MADE EASIER BY THE
INTRANSIGENT POSITION OF THE IRANIANS WHO ARE
DEMANDING FROM THE COMMUNITY THEIR EQUAL TREATMENT
WITH THE MEDITERRANEAN COUNTRIES OR A PROVISION
GRANTING DUTY FREE STATUS TO THE PRODUCTS OF
COOPERATION AGREEMENTS. THE FRG RECENTLY PRESENTED
THE COMMITTEE OF PERMANENT REPRESENTATIVES WITH A
MEMORANDUM CONTAINING FRG DISIDERATA FOR A
COMMUNITY DECISION ON THE REFINERY PROJECT (COPY
BEING TRANSLATED AND POUCHED). ONE SOURCE STATED
THAT THIS MEMORANDUM WAS A "WISH LIST" WHICH FAILED
TO RECONCILE THE CONFLICTING OBJECTIONS IN THE
GERMAN GOVERNMENT POSITION.

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PAGE 02 BONN 17049 03 OF 03 301819Z

11. THE EMBASSY WILL CONTINUE ITS REPRESENTATIONS
TO THE FRG ON THE PROPOSED PETROLEUM DUTY REDUCTIONS
AND THE EC-IRAN PREFERENTIAL TRADE AGREEMENT. ALL

INDICATIONS ARE, HOWEVER, THAT THE FRG IS NOT LIKELY TO BE VERY RESPONSIVE TO OUR CONCERNS IF IT IMPLIES THAT THE PETROLEUM REFINERY PROJECT MUST BE ABANDONED. IN OUR VIEW THE MOST FRUITFUL LINE OF ARGUMENT WOULD BE TO ATTEMPT TO PERSUADE THE FRG NOT TO PROCEED WITH ITS PROPOSED TARIFF CONCESSIONS UNTIL THEY CAN BE MADE WITHIN A BROADER FRAMEWORK OF PRODUCER CONSUMER COUNTRY RELATIONS. SUCH AN APPROACH WOULD BE SUCCESSFUL ONLY IF WE CAN PERSUADE THE FRG THAT WE ARE NOT OUT TO KILL THE REFINERY PROJECT ENTIRELY AND IF OUR APPROACH OFFERS THE FRG A REASONABLE PROSPECT OF CONCLUDING THE REFINERY DEAL WITHOUT AN INORDINATE TIME DELAY.

12 THERE IS ALWAYS THE POSSIBILITY THAT THIS PROJECT MAY FAIL AS A RESULT OF IRANIAN INTRANSIGENCE ON SUCH DETAILS AS PRICE OR TAXATION. FAILURE OF THE PROJECT WOULD BE A MAJOR DEFEAT FOR ECONOMICS MINISTER FRIDERICHS WHO WOULD THEN QUITE LIKELY SEEK A SCAPEGOAT.

13. THE EMBASSY HAS MADE FORCEFUL REPRESENTATIONS ON THE ISSUES INVOLVED ON A NUMBER OF OCCASIONS AT A VARIETY OF LEVELS AND WE ARE PERSUADED THAT THE FRG IS FULLY AWARE OF OUR CONCERNS. THE AMBASSADOR WILL REITERATE THESE CONCERNS TO FOREIGN MINISTRY STATE SECRETARY SACHS. HILLENBRAND

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Message Attributes

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